

## **GrandSouth Bancorporation reports fourth quarter 2018 earnings of \$1.8 million**

GREENVILLE, SC, January 17, 2019

GrandSouth Bancorporation (GRRB:OTCQX), the holding company for GrandSouth Bank

GrandSouth Bancorporation today reported fourth quarter growth in total assets of \$35.9 million, or 4.85%, and \$122.5 million, or 18.73%, for the year bringing total assets to \$776.2 million as of December 31, 2018. The asset growth was primarily driven by an increase in gross loans of \$30.1 million, or 4.76%, for the quarter and \$111.9 million, or 20.29%, for the year with the Orangeburg and Charleston markets leading the way, representing 83.33% and 65.71% of the growth for the quarter and year, respectively. Loan growth was funded by growth in our deposit portfolio and the issuance of additional subordinated debentures. The deposit portfolio grew by \$23.4 million, or 3.57%, for the quarter and \$108.8 million, or 19.09%, for the year. Noninterest bearing deposits grew by \$6.1 million, or 5.99%, during the quarter and \$19.1 million, or 21.34% for the year. The Orangeburg market was the biggest contributor to the overall deposit growth during the fourth quarter.

Asset quality continues to be one of the main focuses of the Company. Nonperforming assets have decreased \$503 thousand, or 10.93%, during the fourth quarter and \$2.6 million, or 39.10%, for the year. As a percentage of total assets, nonperforming assets have fallen to 0.53% at December 31, 2018, down from 0.62% as of September 30, 2018 and 1.03% as of December 31, 2017. Total past due accruing loans, net of the amounts guaranteed by the U.S. government, increased to 0.32% of total gross loans as of December 31, 2018, up from 0.09% as of September 30, 2018 and 0.06% as of December 31, 2017.

Our specialty floor plan lending division credit loss rate decreased to an annualized rate of 1.81% in the fourth quarter, and 1.82% for the year. This quarterly rate is down from 2.57% from the third quarter of 2018. This division's contribution to the Company's earnings remains strong and we are enthusiastic about its future.

The Company's net income for the quarter ended December 31, 2018 was \$1.8 million or \$0.36 per diluted share compared to a net loss of \$228 thousand or \$0.05 per diluted share for the quarter ended December 31, 2017. For the twelve months ending on December 31, 2018, the Company's net income was \$6.3 million, or \$1.29 per diluted share, compared to net income of \$790 thousand, or \$0.15 per diluted share, during the same period in 2017.

Our local economy continues to produce great opportunities for new and existing bank customers. We are confident that the quality growth we are experiencing will benefit earnings in future periods. We appreciate the support from our shareholders and customers and look forward to continued success in 2019.

Sincerely,

JB Schwiers  
President & CEO

GrandSouth Bancorporation (GRRB:OTCQX), the holding company for GrandSouth Bank, announced today that net income for the quarter ended December 31, 2018 was \$1.8 million compared to a net loss of \$228 thousand during the quarter ended December 31, 2017.

#### Overview

- Net income was \$1.8 million for the quarter and \$6.3 million for the year.
- Net loans increased by \$29.8 million, or 4.78%, during the quarter and \$110.1 million, or 20.24%, for the year.
- Gross loans, excluding specialty floor plan and purchased student loans (“core bank loans”), grew \$27.8 million, or 5.37%, during the quarter and \$116.7 million, or 27.20%, during the year.
- Net charge off ratios for the Company as a whole were 0.30% and 0.14% for the quarter and twelve months ended December 31, 2018, respectively.
- The core bank experienced a net charge off ratio of 0.02% for the quarter and a net recovery ratio of 0.14% for the year ended December 31, 2018.
- GrandSouth Bancorporation’s efficiency ratio was 68.03% for the fourth quarter of 2018 compared to 72.47% during the third quarter of 2018, and 76.76% during the fourth quarter of 2017.

#### Net Interest Income

Net interest income before provision for loan losses increased from \$8.3 million during the fourth quarter of 2017 to \$9.6 million for the same period in 2018. For the twelve months ended December 31, 2018, net interest income was \$36.1 million as compared to \$32.2 million for the same period in 2017.

Gross loans averaged \$645.5 million and \$606.3 million for the three and twelve months ended December 31, 2018, respectively. For the same periods in 2017, gross loans averaged \$530.1 million and \$480.2 million, respectively.

Respectively, the net interest margin of the Company for the three and twelve months ended December 31, 2018 were 5.46% and 5.47%, compared to 5.66% and 5.97% for the same periods in 2017.

#### Noninterest Income

Noninterest income was \$340 thousand and \$245 thousand for the quarters ended December 31, 2018 and 2017, respectively, and \$1.2 million and \$883 thousand for the twelve months ended December 31, 2018 and 2017, respectively.

#### Noninterest Expense

For the quarters ended December 31, 2018 and 2017, respectively, noninterest expense was \$6.8 million and \$6.6 million. The growth in noninterest expense for the quarter as compared to the same period a year ago was primarily driven by a \$166 thousand increase in employee compensation.

For the twelve months ended December 31, 2018 and 2017, noninterest expense was \$26.5 million and \$24.2 million, with \$1.5 million of the increase attributable to salaries expense.

The efficiency ratio improved to 68.03% during the quarter ended December 31, 2018 from 76.76% during the fourth quarter of 2017.

### Loan Portfolio

Gross loan growth was \$30.1 million and \$111.9 million in three and twelve months ended December 31, 2018, respectively. Core bank loans grew by \$27.8 million, or 5.37%, and \$116.7 million, or 27.20%, during the same periods.

Specialty floor plan loans grew by \$4.0 million, or 5.26%, and \$2.1 million, or 2.61%, during the three and twelve months ended December 31, 2018.

Purchased student loans continued to experience paydowns totaling \$1.7 million, or 4.44%, during the fourth quarter and \$6.9 million, or 15.87%, during the year.

The composition of our loan portfolio consisted of the following at December 31, 2018, September 30, 2018 and December 31, 2017:

	December 31, 2018	September 30, 2018	December 31, 2017
	(Dollars in thousands)		
Commercial, financial and agricultural	\$ 119,201	\$ 102,796	\$ 78,335
Specialty floor plan loans	80,792	76,756	78,739
Real estate - construction, land development and other	57,206	59,603	54,580
Real estate – mortgage	359,798	346,024	289,029
Purchased student loans	36,596	38,298	43,500
Installment loans to individuals	9,686	9,663	7,211
Loans, gross	663,279	633,140	551,394
Allowance for possible loan losses	(9,188)	(8,864)	(7,414)
Loans, net	\$ 654,091	\$ 624,276	\$ 543,980

### Loan Loss Provision/Asset Quality

For the quarter and twelve months ended December 31, 2018, the loan loss provision was \$814 thousand and \$2.6 million, respectively. For the same periods in 2017, the loan loss provision was \$935 thousand and \$6.1 million. The Company had net charge offs for the three and twelve months ended December 31, 2018 of \$490 thousand and \$858 thousand as compared to net charge offs of \$364 thousand and \$3.8 million for the same periods last year.

Real estate acquired in the settlement of loans was \$3.6 million at December 31, 2018, \$2.9 million at September 30, 2018 and \$4.9 million as of December 31, 2017. Nonaccrual loans were \$491 thousand at December 31, 2018, \$1.6 million at September 30, 2018 and \$1.7 million at December 31, 2017.

The Company's allowance for loan losses as a percentage of total loans at December 31, 2018 was 1.39%, compared to 1.40% and 1.34% at September 30, 2018 and December 31, 2017, respectively. The Company's management believes the allowance is adequate and continues to monitor trends in environmental factors which may potentially affect future losses.

### Securities Portfolio

Investment securities, all of which are available-for-sale, were \$40.3 million at December 31, 2018, down from \$40.9 million and up from \$21.4 million at September 30, 2018 and December 31, 2017, respectively.

Securities in our investment portfolio as of December 31, 2018 were as follows:

- callable agency securities in the amount of \$5.8 million
- residential government-sponsored mortgage-backed securities in the amount of \$18.6 million
- taxable municipal bonds in the amount of \$1.0 million
- nontaxable municipal bonds in the amount of \$6.0 million
- treasury securities in the amount of \$8.9 million

During the fourth quarter of 2018, the Company did not complete any purchases and one security was called.

### Deposits

Total deposits increased by \$23.4 million, or 3.57%, and \$108.8 million, or 19.09%, during the three and twelve months ended December 31, 2018, when the balance stood at \$678.8 million. Interest bearing deposits were \$570.0 million at quarter end, reflecting a \$17.3 million, or 3.12%, and \$89.7 million, or 18.67%, increase for the three and twelve months then ended. Noninterest bearing deposits increased \$6.1 million, or 5.99%, and \$19.1 million, or 21.34%, for the quarter and year ended December 31, 2018.

### Subordinated Debt

During the quarter, the Company sold \$10.0 million in Subordinated Debt to enhance the capital structure of the Bank. The debt has a maturity date of November 30, 2028 and bears a fixed interest rate of 6.50% until November 30, 2023, at which time the interest rate will become variable. The Company may, at its option, at any time on an interest payment date on or after November 30, 2023, redeem the notes, in whole or in part, at par plus accrued interest to the date of redemption.

### Shareholders' Equity

Shareholders' equity was \$57.4 million at December 31, 2018, a \$2.2 million, or 3.98%, and \$6.8 million, or 13.45%, increase for the three and twelve months then ended. The balance change is a result of the retention of earnings, exercise of stock options, expense of stock option grants and changes in the fair value of investments. Tier 1 Risk Based Capital Ratios were 11.36% and 11.09% for GrandSouth Bancorporation and GrandSouth Bank, respectively, as of December 31, 2018.

As of December 31, 2018, the Company is in the process of completing a capital raise of up to \$10.0 million. The proceeds of the capital raise, expected to be completed in the first quarter of 2019, will be used to support the Bank's continued organic growth across its current footprint.

GrandSouth Bancorporation is a bank holding company with assets of \$776.2 million at December 31, 2018. GrandSouth Bank provides a range of financial services to individuals and small and medium sized businesses. GrandSouth Bank has six branches in South Carolina, located in Greenville, Fountain Inn, Anderson, Greer, Columbia and Orangeburg and a loan production office in Charleston.

### Forward-Looking Statements

This press release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that relate to future events or the future performance of GrandSouth Bancorporation. Forward-looking statements are not guarantees of performance or results. These forward-looking statements are based on the current beliefs and expectations of the respective management of GrandSouth Bancorporation and GrandSouth Bank and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond their respective control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. Actual results may differ materially from the anticipated results discussed or implied in these forward-looking statements because of numerous possible uncertainties. Words like "may," "plan," "contemplate," "anticipate," "believe," "intend," "continue," "expect," "project," "predict," "estimate," "could," "should," "would," "will," and similar expressions, should be considered as identifying forward-looking statements, although other phrasing may be used. Such forward-looking statements involve risks and uncertainties and may not be realized due to a variety of factors. Additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed in the reports (such as Annual Reports) filed by GrandSouth Bancorporation. You should consider such factors and not place undue reliance on such forward-looking statements. No obligation is undertaken by GrandSouth Bancorporation to update such forward-looking statements to reflect events or circumstances occurring after the issuance of this press release.

GrandSouth Bancorporation  
Greenville, SC

Condensed Consolidated Balance Sheets  
(Unaudited)

	December 31, 2018	September 30, 2018	December 31, 2017
	(Dollars in thousands)		
<b>Assets</b>			
Cash and due from banks	\$ 21,048	\$ 27,075	\$ 22,799
Interest bearing transaction accounts with other banks	7,657	397	14,290
Segregated cash	2,060	-	-
Federal funds sold	4,250	678	4,368
Cash and cash equivalents	35,015	28,150	41,457
Certificates of deposit with other banks	13,750	14,750	13,500
Securities available-for-sale	40,329	40,949	21,440
Other investments, at cost	1,183	1,268	1,271
Loans, gross	663,279	633,140	551,394
Allowance for loan losses	(9,188)	(8,864)	(7,414)
Loans, net of allowance for loan losses	654,091	624,276	543,980
Premises and equipment, net	12,105	12,185	12,215
Bank owned life insurance	6,686	6,651	6,543
Real estate acquired in settlement of loans	3,564	2,883	4,923
Interest receivable	5,185	4,593	4,728
Deferred income taxes	2,116	1,825	1,664
Goodwill	737	737	737
Other assets	1,445	2,003	1,275
Total assets	\$ 776,206	\$ 740,270	\$ 653,733
<b>Liabilities and shareholders' equity</b>			
<b>Deposits</b>			
Noninterest bearing	\$ 108,828	\$ 102,679	\$ 89,688
Interest bearing	569,967	552,704	480,310
Total deposits	678,795	655,383	569,998
Federal Home Loan Bank advances	14,000	16,000	19,000
Other borrowings	-	625	550
Junior subordinated debentures	18,047	8,247	8,247
Interest payable	416	324	208
Other liabilities	7,507	4,450	5,097
Total liabilities	718,765	685,029	603,100
<b>Shareholders' equity</b>			
Preferred stock - Series A - no par value	1,298	1,298	1,298
Common stock - no par value	33,374	33,236	32,650
Retained earnings	23,217	21,438	16,921
Accumulated other comprehensive loss	(448)	(731)	(236)
Total shareholders' equity	57,441	55,241	50,633
Total liabilities and shareholders' equity	\$ 776,206	\$ 740,270	\$ 653,733

Condensed Consolidated Statements of Income  
(Unaudited)

	For the three months ended December,		For the twelve months ended December 31,	
	2018	2017	2018	2017
	(Dollars in thousands)			
Interest income	\$ 12,201	\$ 9,851	\$ 44,832	\$ 37,155
Interest expense	<u>2,599</u>	<u>1,513</u>	<u>8,715</u>	<u>4,937</u>
Net interest income	9,602	8,338	36,117	32,218
Provision for loan losses	<u>814</u>	<u>935</u>	<u>2,632</u>	<u>6,089</u>
Net interest income after provision for loan losses	8,788	7,403	33,485	26,129
Noninterest income				
Service charges on deposit accounts	200	139	683	529
Gain on sale of securities	-	-	-	10
Net gain on sale of premises and equipment	16	33	151	19
Increase in value of life insurance assets	35	37	143	153
Other	<u>89</u>	<u>36</u>	<u>218</u>	<u>172</u>
Total noninterest income	340	245	1,195	883
Noninterest expense				
Salaries and employee benefits	4,269	4,103	16,734	15,218
Premises and equipment	543	481	2,030	1,808
Loss on sale and impairment of real estate acquired in settlement of loans	(15)	201	282	205
Data processing	371	313	1,423	1,248
Other expenses	<u>1,596</u>	<u>1,491</u>	<u>5,988</u>	<u>5,744</u>
Total noninterest expense	6,764	6,589	26,457	24,223
Income before income taxes	2,364	1,059	8,223	2,789
Income tax provision	<u>569</u>	<u>1,287</u>	<u>1,910</u>	<u>1,999</u>
Net income	1,795	(228)	6,313	790
Deductions for amounts not available to common shareholders: Dividends declared or accumulated on preferred stock	<u>-</u>	<u>-</u>	<u>-</u>	<u>(91)</u>
Net income available to common Shareholders	<u>\$ 1,795</u>	<u>\$ (228)</u>	<u>\$ 6,313</u>	<u>\$ 699</u>

Financial Highlights  
(Unaudited)

For the three months  
ended December 31,  
2018                      2017

For the twelve months  
ended December 31,  
2018                      2017

(Dollars in thousands)

Per share data:

Earnings per share, basic	\$ 0.39	\$ (0.05)	\$ 1.40	\$ 0.16
Earnings per share, diluted	\$ 0.36	\$ (0.05)	\$ 1.29	\$ 0.15
Book value per share	\$ 12.33	\$ 10.96	\$ 12.33	\$ 10.96
Tangible book value per share	\$ 12.17	\$ 10.79	\$ 12.17	\$ 10.79
Weighted average shares outstanding, basic	4,553,294	4,502,190	4,552,127	4,498,555
Weighted average shares outstanding, diluted	4,926,193	4,595,513	4,905,397	4,593,664
Shares outstanding at end of period	4,553,490	4,502,190	4,553,490	4,502,190

Selected performance ratios and other data:

Annualized return on average assets	0.94%	-0.14%	0.88%	0.14%
Annualized return on average equity	12.62%	-1.77%	11.70%	1.54%
Annualized yield on average earning assets	5.20%	5.50%	5.23%	5.81%
Cost of funds	1.68%	1.22%	1.51%	1.09%
Annualized net interest margin	5.46%	5.66%	5.47%	5.97%
Efficiency ratio	68.03%	76.76%	70.91%	73.18%
Annualized charge-offs, net to average loans	0.30%	0.27%	0.14%	0.80%

December 31,    September 30,    December 31,  
2018                      2018                      2017  
(Dollars in thousands)

Shareholders' equity to total assets	7.40%	7.46%	7.75%
Tier 1 risk-based capital ratio	11.36%	10.08%	10.47%
Intangible assets			
Goodwill	\$ 737	\$ 737	\$ 737
Other real estate owned	3,564	2,883	4,923
Nonaccrual loans	491	1,644	1,745
Loans past due 90 days and accruing interest (a)	<u>43</u>	<u>74</u>	<u>61</u>
Total nonperforming assets	4,098	4,601	6,729
Allowance for loan losses to loans, gross	1.39%	1.40%	1.34%

(a) - Amount represents the net of the loans wholly or partially guaranteed by the US Government.